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Activity report for 2009 of the Internal Audit and Investigations Group of the United Nations Office for Project Services

Summary

The Director of the United Nations Office for Project Services Internal Audit and Investigations Group submits this activity report on internal audit and investigation services for the year ended 31 December 2009 to the Executive Board through the Executive Director of the United Nations Office for Project Services. The response of UNOPS management to this report is presented separately as per Executive Board decision 2006/13.

The year 2009 marks the second full year of operation for the Internal Audit and Investigations Group, previously named the Internal Audit Office.

Elements of a decision

The Executive Board may wish to:

(a) *Take note of* the annual report of the Internal Audit and Investigations Group for 2009; and

(b) *Take note of* the annual report of the Strategy and Audit Advisory Committee for 2009 (in line with Executive Board decision 2008/37).

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2. Audit recommendations unresolved for more than 18 months
3. Strategy and Audit Advisory Committee annual report 2009

I. Introduction

1. The Internal Audit and Investigations Group, previously named the Internal Audit Office, is pleased to provide the Executive Board, through the Executive Director, with the present activity report on the United Nations Office for Project Services (UNOPS) internal audit and related services for the year ended 31 December 2009. This report contains details pursuant to Executive Board decision 2008/13, specifically, (a) a list of the high-priority findings and the ratings contained in audit reports, (b) a table displaying unresolved audit recommendations by year and category, and (c) an explanation of findings that have remained unresolved for 18 months or more.

2. The year 2009 represents the second full year of operation for the Internal Audit and Investigations Group. In 2009, the Internal Audit and Investigations Group maintained the significant increase in the internal audit coverage of UNOPS over prior years that had been noted in 2008, enhancing the overall internal control environment of the organization. As of 1 September 2009, the Internal Audit and Investigations Group assumed a centralized and dedicated role in the management and conduct of investigations throughout the organization.

3. The Internal Audit and Investigations Group reports directly to the Executive Director of UNOPS and assists him in discharging his accountability. In this regard, it provides assurance, offers advice, recommends improvement and helps to enhance the risk management, control and governance systems of the organization. It also seeks to promote and reinforce tight internal controls and manage risk within the organization. Additionally, the Internal Audit and Investigations Group endeavours to support management in the application of UNOPS general policies and objectives as described in the 2010-2013 business strategy and the 2010-2011 budget.

4. The Internal Audit and Investigations Group continued to report on its activities to the UNOPS Strategy and Audit Advisory Committee during 2009. In accordance with Executive Board decision 2008/37, the annual report of the Strategy and Audit Advisory Committee for 2009 is attached as annex 3 to the present report.

II. Role and functions of the Internal Audit and Investigations Group

A. Mandate, functions and standards

5. The UNOPS mandate for internal audit is described in the UNOPS Financial Regulations and Rules (DP/2009/4). Regulation 5.03 and Rule 105.06 define the role of the UNOPS Internal Audit and Investigations Group.

6. The mandate, function and standards of the UNOPS Internal Audit and Investigations Group are contained in its charter, issued by the Executive Director as Organizational Directive No. 25.

7. The role of the Internal Audit and Investigations Group is further defined in Organizational Directive No. 15 (Revision 1) – UNOPS Global Structure. In addition to providing internal audit services to UNOPS, the Internal Audit and Investigations Group leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority or other misconduct and violations of UNOPS regulations, rules and administrative instructions.

B. Institute of Internal Auditors external assessment

8. In the performance of its internal audit function, the Internal Audit and Investigations Group adheres to the International Standards for the Professional Practice of Internal Auditing, issued by The Institute of Internal Auditors, as adopted by all internal audit services throughout the United Nations system. During 2009, the Internal Audit and Investigations Group underwent an external assessment of its compliance with the International Professional Practices Framework of The Institute of Internal Auditors. As a result of a positive assessment, the Internal Audit and Investigations Group can now state that it "[c]onforms with the International Standards for the Professional Practice of Internal Auditing".

C. Coordination with the United Nations Board of Auditors and other United Nations oversight bodies

9. In 2008, the Internal Audit and Investigations Group coordinated its internal audit work with the United Nations Board of Auditors and made its results available to the Board. Its annual planning process also included consultation with the Board.

10. As appropriate, the Internal Audit and Investigations Group coordinates its work with the Office of Internal Oversight Services and with internal audit services in other United Nations organizations.

III. Approved annual internal audit work plan for 2009

11. The 2009 work plan was based primarily on the overall objective of assisting the Executive Director in having assurance that internal controls and procedures function as envisaged. The work plan contained detailed discussion on the planning approach, objectives, risk assessment, areas to be covered, nature of audit services, operating budget and transition arrangements. It was developed taking into consideration the recent issues affecting the UNOPS internal systems and business.

A. Internal audit risk-assessment model

12. Per UNOPS Financial Regulation 4.01, the Executive Director must maintain a risk-management system. Furthermore, per Financial Rules 104.01 and 104.02, business heads should annually define their major risks and business opportunities as well as their risk tolerance. It is noted that UNOPS does not yet have in place a structured, organization-wide system of risk management. Components of such a system exist and are functioning, for example in engagement acceptance and pricing, but the Internal Audit and Investigations Group is not yet able to rely on such components as a basis for producing a risk-based audit plan. In the absence of such reliance, it has developed its own risk-assessment model. This model will continue to be used until such time as management can present a structured, organization-wide risk-management system. In this regard, it is noted that in the second quarter of 2010, management, in consultation with the Internal Audit and Investigations Group, has embarked on establishing such a risk-management system. In advising and supporting this process, the Internal Audit and

Investigations Group will refer to and adhere to technical guidance provided by the Institute of Internal Auditors.[1]

13. In preparing the work plan for 2009, the Internal Audit and Investigations Group refined its risk-assessment model for UNOPS compared to that of 2008 to ensure greater consistency between internal audit priorities and the goals of UNOPS management. The risk-assessment model also takes into account available resources, any update to the audit universe, and the objective of auditing various functions and locations within the organization in a rolling three-year period. The work plan also reflects the objective of broadening the focus of the Internal Audit and Investigations Group from assurance and compliance-based auditing to include more performance-based auditing. Having a model for risk assessment is essential, given the diversity and range of UNOPS operations worldwide, the broad scope of internal audit coverage and the limited staff resources.

14. The risk-assessment model and approach taken by the Internal Audit and Investigations Group when developing its annual work plan was presented to the Strategy and Audit Advisory Committee for its review and comments during 2009. The Strategy and Audit Advisory Committee has commended the Internal Audit and Investigations Group on its 2009 annual work plan as well as the implementation of the work plan during 2009.

IV. Highlights of audit activities during 2009

15. The Internal Audit and Investigations Group released 61 reports during 2009 compared with 38 in 2008, and the results of its work are presented under three separate categories, reflecting the differences in approach, as follows:

(a) Internal audit reports of audits conducted directly by the Internal Audit and Investigations Group (6 reports);

(b) Internal audit reports of project audits conducted on behalf of, and under the supervision of, the Internal Audit and Investigations Group by third-party professional auditing firms or consultants (17 reports); and

(c) Internal audit reports of audits of significant programmes managed and/or executed by UNOPS that were conducted on behalf of, and under the supervision of, the Internal Audit and Investigations Group by third-party professional auditing firms or consultants (38 reports).

A. Internal audit reports of audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

16. During the year ending 31 December 2008, six internal audit reports were completed by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director, as detailed in table 1.

[1] For example, The Role of Internal Auditing in Enterprise-wide Risk Management, The Institute of Internal Auditors, 2004.

Table 1. List of internal audit reports completed by the Internal Audit and Investigations Group in 2009

Location or function	Rating	Score[2]
Sri Lanka Operations Centre	Partially satisfactory	5.75
Human Resources – Individual Contractors Agreement (ICA) Policy	Unsatisfactory	3.85
Peru Operations Centre	Partially satisfactory	6.35
Pristina Project Centre	Partially satisfactory	7.21
Indonesia Operations Centre	Partially satisfactory	6.15
Afghanistan Operations Centre*	Unsatisfactory	<3.99

* Joint special audit with UNDP Office of Audit and Investigations.

17. As at 31 December 2009, the Internal Audit and Investigations Group had commenced audits relating to UNOPS operations in Argentina, Iraq, Myanmar and Sudan. Additionally, an audit was being completed on the UNOPS reconciliation process of its inter-fund account with UNDP and UNFPA. Finally, an audit focused on the cross-cutting function of the UNOPS Procurement Practice Group had also begun.

Analyses of internal audit recommendations issued in 2009

18. Pursuant to Executive Board decision 2005/19, the Internal Audit and Investigations Group analysed each of the recommendations issued during 2009. The six internal audit reports issued generated 178 audit recommendations. It is noted that one recommendation may have more than one cause or more than one functional area. The analysis for the 2009 internal audit recommendations thus consists of 178 recommendations that can be analysed by importance, 225 by cause and 186 by frequency of occurrence in a functional area.

19. The number of internal audit recommendations decreased significantly in 2009 from 359 to 178. The average number of recommendations per audit report also decreased from 45 in 2008 to 30 in 2009. This reflects a deliberate attempt by the Internal Audit and Investigations Group to focus on matters of greater priority and urgency to management when making audit recommendations as well as the consolidation of similar audit recommendations in specific areas.

Categorization, by level of importance, of audit recommendations issued through internal audit reports in 2009

20. Of the 178 audit recommendations issued through internal audit reports in 2009, 56 (31 per cent) are considered to be of high importance, 112 (63 per cent) are of medium importance and 10 (6 per cent) are of low importance, as shown in table 2.[3] The reduction in audit recommendations of high importance suggests progress by management in addressing the pertinent risks to which the organization is exposed. However, as noted below under "Causes of audit issues", it is clear that among the causes of audit issues, compliance with UNOPS policies and procedures remains an

[2] The overall level of internal control is based on a weighted rating of functions audited. "Unsatisfactory" reflects a score from 1.00 to 3.99; "partially satisfactory", from 4.00 to 7.99; and "satisfactory", from 8.00 to 10.00.

[3] Definitions per DP/2007/38: "'*High*': Action considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization); '*Medium*': Action considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences); and '*Low*': Action that is considered desirable and should result in enhanced control or better value for money".

area for improvement as its share of the causes of audit issues increased from 16 per cent in 2008 to 33 per cent in 2009.

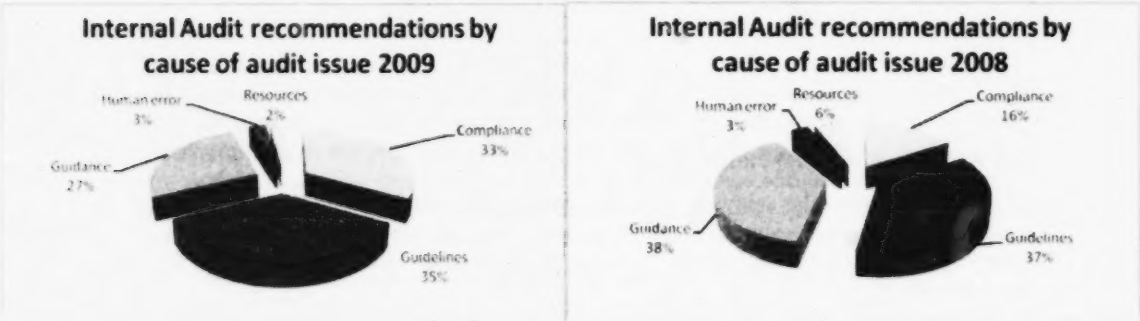
Table 2. Categorization of audit recommendations, by level of importance

Level of importance	Number of recommendations		Percentage of total	
	2008	2009	2008	2009
High	147	56	41	31
Medium	198	112	55	63
Low	14	10	4	6
Total	**359**	**178**	**100**	**100**

Causes of audit issues

21. An absence of written procedures to guide staff in performing their functions and failure to comply with prescribed UNOPS regulations (35 per cent and 33 per cent, respectively) are the main causes of the audit issues addressed in 2009 audit reports, as shown in chart 1. The other causes are inadequate or lack of supervision by supervisors (27 per cent), human error (3 per cent) and insufficient resources (2 per cent).

Charts 1 and 2. Audit recommendations, by cause of audit issue[4]



Frequency of occurrence of audit recommendations by functional area

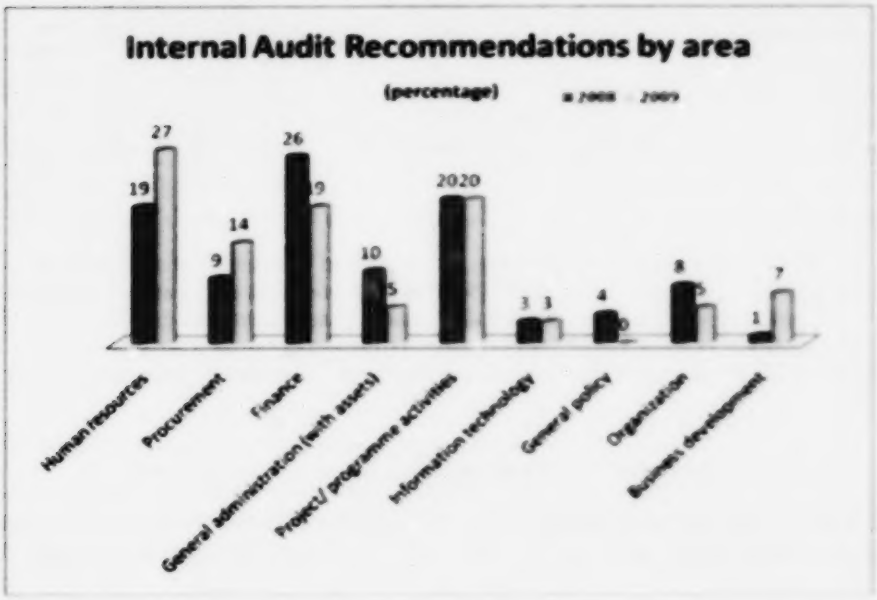
22. Further analysis of audit recommendations by frequency of occurrence by functional area has been carried out. As shown in chart 3, human resources accounted for 27 per cent of the total; project/programme activities, 20 per cent; finance, 19 per cent; and procurement, 14 per cent.

23. The top three areas in 2009 were similar to those of 2008, and, given the nature of UNOPS operations, are to be expected: human resources, project management and finance. However, the increase of nine percentage points in audit issues relating to human resources largely reflects the lack of compliance throughout the organization with the Individual Contractor Agreement Policy. Both procurement and business development increased as areas of audit cause in 2009

[4] Definitions per DP/2007/38: "'*Compliance*': Failure to comply with prescribed UNOPS regulations, rules and procedures; '*Guidelines*': Absence of written procedures to guide staff in performing their functions; '*Guidance*': Inadequate or lack of supervision by supervisors; 'Human error': Mistakes committed by staff entrusted to perform assigned functions; '*Resources*': Insufficient resources (funds, skill, staff) to carry out an activity or function".

compared with 2008, reflecting the additional focus of the Internal Audit and Investigations Group on these areas.

Chart 3. Internal audit recommendations, by functional area



Key findings of internal audit reports

24. To supplement the analysis of audit recommendations provided earlier in this report, an indicative summary of the key findings relating to the audit recommendations contained in the internal audit reports issued during 2009 is provided below.

Auditee purpose, strategic direction and organizational management

25. In four internal audit reports, audit issues were noted relating to improvements required to the overall internal environment of the auditee. Examples include: unclear organizational structure and uncertain lines of authority; lack of dedicated terms of reference for the operation or project centre; and unclear, or an absence of, aligned job descriptions. In one instance, the internal audit report highlighted the need to provide guidance on transfer pricing and sharing of resources among various centres within the organization.

26. Management monitoring and communication systems: Insufficient or lack of documentation of the internal control and monitoring systems was noted in all internal audit reports. Additionally, the issue of insufficient or delayed reporting to partners, both financial and operational, was raised in four reports.

27. Delegation of authority: Delegation of authority was assessed in five audits during 2009. It was recommended that the system and forms used be updated, since many of the references in the then existing letters of delegation of authority sent to each individual concerned had been superseded and thus were no longer relevant, leading to uncertainty of responsibility in some cases.

28. Business development: The Internal Audit and Investigations Group now includes in its work plan of operation and project centres an assessment of the business development practices of the centre, with a view to commenting on its financial sustainability or growth potential. Audit observations raised for management consideration included: establishment of thresholds or optimal levels of project budgets to maintain portfolio viability; the need for greater scrutiny and consistent approaches in the development of projected pipelines; the need for greater awareness of, and involvement in, the annual target-setting process by the centres; and a need to diversify portfolios in terms of partners and services provided in certain locations.

Project management

29. Closure of projects: In five internal audit reports, it was noted that numerous projects had been operationally closed, but not financially closed within a time frame specified by the UNOPS Financial Regulations and Rules.

30. Other project management issues: Other issues noted in a majority of the internal audit reports issued during 2009 included: the need for greater compliance with Organizational Directive No. 22 relating to the organization's pricing policy; the need to develop guidance and tools to ensure such consistency and compliance; the need for greater monitoring of projects overspent against budgets; and weaknesses in meeting partner reporting requirements.

Finance

31. Organizational structure: In three internal audit reports, it was noted that there was a degree of uncertainty with respect to the reporting lines of the finance officers with respect to the finance practice as a whole, thus requiring that clear job descriptions be developed. Additionally, two internal audit reports noted that, given the current reporting lines within the Finance Practice Group, there exists a possibility that a regionally based finance officer may lack the necessary independence to adequately advise management.

32. Financial procedures: To safeguard the institutional knowledge developed by the Finance Practice Group in recent years and to ensure greater efficiency in its operations, it was noted in two internal audit reports that management should formally document and disseminate procedures governing all aspects of its work, which would form components of a finance operations manual in due course.

33. Other issues relating to finance: Other issues noted were: a need for guidance to mitigate any exposure to foreign exchange losses where project funds are denominated in currencies other than United States dollars; closure of remaining imprest accounts; lack of compliance with minimum standards governing the use and monitoring of petty cash; a need for regular review and validation of unliquidated obligations; and a need to reduce the dependency on data manipulation in the reporting and reconciliation processes to reduce the risks of human error.

Human resources

34. Implementation of the Individual Contractors Agreement (ICA) modality: All but one of the internal audit reports issued noted significant weaknesses in this regard. Examples of this include: overall lack of consistency in the application of the ICA policy across the organization; generally weak supporting documentation; weak support available relating to the calculation of fees; engagement, by certain locations, of ICAs from specific countries; a significant gender imbalance across the organization with respect to ICAs; lack of maintenance, in a majority of locations,

of a suitable roster of consultants from which to draw as needed; a need to reassess the continued use of, and investment in, the UNOPS ICA management system, GLOCON; and lack of inherent information technology controls, particularly input controls, in the GLOCON system.

35. Other audit observations relating to human resources that raised issues that may undermine the organization's commitment to the competence, expertise and performance of its personnel include: a lack of analysis of training needs and dedicated training plans for personnel at the operational level; a need to produce more timely and complete performance evaluation reviews for individual contractors; a need to increase the completion rate of performance appraisals for staff; and insufficient vetting of successful applicants' credentials when recruited for staff positions.

Procurement

36. Given its importance, procurement forms part of the audit work plan in the majority of audits conducted by the Internal Audit and Investigations Group. It was noted in a majority of internal audit reports issued in 2009 that the control activities pertaining to procurement could be strengthened by addressing the audit recommendations, including: lack of adequate procurement capacity and competency in some locations; development of clear and specific job descriptions for procurement officers; preparation of annual procurement plans; preparation and monitoring of detailed tracking lists recording all ongoing procurements; implementation of a monitoring mechanism to track the cumulative value of call-off orders under the organization's long-term agreements; development of a monitoring system to track the implementation of the Executive Chief Procurement Officer's criteria and conditions for the awarding of contracts; continued efforts to reduce the high rate of waivers noted in two locations; and implementation of a standard scoring and evaluation process for a similar procurement process across the organization.

General administration

37. Asset management: the control activities relating to asset management were mentioned in five of the internal audit reports released during 2009. In these reports, the following issues were noted as areas for improvement: a need to keep accurate and timely asset inventory lists, a need for periodic physical verification of assets and documentation of such, guidance on a consistently applied tagging system throughout the organization, and implementation of the asset management module in Atlas.

38. Information and communication technology (ICT): several issues relating to the management of ICT resources were noted in the 2009 internal audit reports, including: inadequate physical security of the network servers and data backups; inadequate physical environments for ICT resources; inadequate or inconsistent business continuity plans; the requirement to ensure that software licenses and warranties are current; and a need for guidance on the retention policy relating to electronic data.

39. Other administrative or operational issues: two audit reports noted significant weaknesses in the quality of the location's recordkeeping and knowledge management systems; there was a need for guidance to provide a consistent approach for the management of mobile telephones issued to personnel; and it was recommended that three locations audited in 2009 reassess their compliance with the minimum operational security standards.

Noted management responses

40. Notwithstanding management's response to the current report that is presented separately as per Executive Board decision 2006/13, it is noted that, in direct response to the internal audit report on the implementation of the Individual Contractor Agreement Policy, a dedicated taskforce was established by management, comprising personnel from human resources, project management, finance and legal. This taskforce presented to management a list of over 50 suggestions for changes to the Individual Contractor Agreement Policy and supporting mechanisms. To date, the Internal Audit and Investigations Group notes that management has now revised the Individual Contractor Agreement Policy, and the effectiveness of these revisions will be assessed during 2010.

41. The Internal Audit and Investigations Group notes similar action, revisions or new policies by management during 2009 and early 2010 that address various audit recommendations, including those relating to financial closure of operationally closed projects, delegation of authority, a centrally managed and maintained base of knowledge across multiple functions to be applied consistently throughout the organization, guidance on the provision and maintenance of guest houses in hardship locations, development of a strategic plan for the Finance Practice Group, guidance on asset-management, training and awareness programmes for the implementation of International Public Sector Accounting Standards, and guidance and development of tools to aid consistent costing of project budgets. Such measures will be taken into account when developing audit work plans in 2010 and beyond.

B. Internal audit reports of projects

Internal audit reports issued for projects

42. During the year ending 31 December 2009, 17 internal audit reports relating to specific projects were completed by the Internal Audit and Investigations Group and submitted to the UNOPS Executive Director.

43. The Internal Audit and Investigations Group relies on third-party professional auditing firms to conduct these audits on its behalf. This maximizes its capacity to focus on internal audits of UNOPS operations. All professional firms used have been pre-qualified by UNOPS to provide such services and they adhere to the terms of reference approved by the Internal Audit and Investigations Group. All audit reports prepared by such firms are reviewed by the Internal Audit and Investigations Group before finalization.

44. As seen in table 3, of the 17 internal audit reports for projects issued in 2009, nine expressed an audit opinion on the financial situation of related projects and provided a rating of internal control compliance, seven expressed an opinion on the financial situation only, and one provided a rating of compliance with internal controls only. Such variances in audit output are due largely to the requirements of the partner and primary stakeholder(s) concerned.

Table 3. Number of project audit reports issued, 2008 and 2009

	2008	2009
Audit reports issued expressing an opinion on the financial situation and rating the internal control environment	9	9
Audit reports issued expressing an opinion on the financial situation only	6	7
Audit reports issued expressing an opinion on internal control compliance only	12	1
Total	**27**	**17**

45. In line with Executive Board decision 2008/13 and as shown in table 4, by 31 December 2009, of the 16 project audit reports issued with an audit opinion of the financial situation of a project, 12 (75 per cent) included an unqualified opinion, compared with 60 per cent in 2008, and four (25 per cent) received qualified opinions, compared with 40 per cent in 2008. This positive decrease in qualified audit opinions is considered to be a result of better management preparedness for audits, audit firms being more knowledgeable about UNOPS operations, and a general improvement in the financial accuracy of project reports.

46. Results showed that the share of "unqualified" opinions on project financials increased by 15 per cent, yet "satisfactory" ratings of internal controls decreased by 16 per cent.

Table 4. Summary of audit opinions and ratings of internal controls for project audits, 2008 and 2009

Type of opinion or rating	Number of audit reports		Percentage of total	
	2008	2009	2008	2009
Audit opinion on financial situation of project				
Unqualified opinion	9	12	60	75
Qualified opinion	6	4	40	25
Total	**15**	**16**	**100**	**100**
Rating of overall level of internal control				
Satisfactory	6	3	46	30
Partially satisfactory	7	7	54	70
Unsatisfactory	0	0	0	0
Total	**13**	**10**	**100**	**100**

Project-related audit recommendations issued in 2009

47. The 17 project audit reports issued generated 247 audit recommendations. These are analysed by importance while 204 are analysed by cause and 236 recommendations can be analysed by frequency of occurrence in a functional area.

Categorization of audit recommendations relating to projects by level of importance

49. Of the 247 project-related audit recommendations issued in 2009, 80 (32 per cent) are considered to be of high importance, 130 (53 per cent) are of medium importance and 29 (12 per cent) are of low importance (table 5).

49. The year 2009 recorded a decrease in the number of audit recommendations of low importance and an increase in those of high importance. This is indicative of an effort by the Internal Audit and Investigations Group to have third-party professional firms increase their focus and reporting on issues of greater significance to management, and a consolidation of issues of lesser importance.

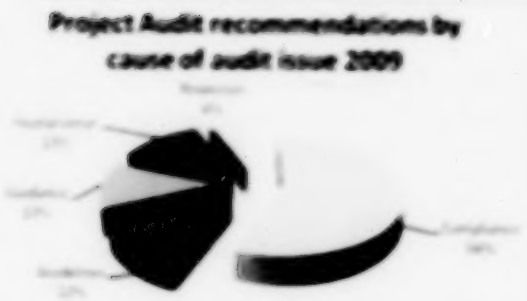
Table 5. Categorization of project audit recommendations, by level of importance

Level of importance	Number of recommendations		Percentage of total	
	2008	2009	2008	2009
High	47	80	23	32
Medium	88	130	44	54
Low	67	29	33	12
Total	202	247	100	100

Causes of audit issues

50. A failure to comply with prescribed UNOPS regulations, rules and procedures is the main cause of the audit issues recorded in 2009 project audit reports. Among the causes of audit issues, compliance increased significantly to 56 per cent in 2009 from 33 per cent in 2008, as shown in charts 4 and 5. This indicates that UNOPS may have increased its body of policy and guidance to support its operations over prior years but the implementation of such policy and guidance is inconsistent.

Charts 4 and 5. Project audit recommendations, by cause of audit issue[1]



Frequency of occurrence of project audit recommendations by functional area

51. Further analysis of project audit recommendations by frequency of occurrence by functional area has been carried out. As shown in chart 6, finance accounted for 51 per cent of the total number of project audit recommendations; project and

[1] See footnote 3 for the definitions of each cause.

programme activities, 20 per cent; information technology, 11 per cent; and general administration (including asset management), 9 per cent.

52. Compared with audits in previous years, the areas that appear to require the most improvement remained essentially the same: finance, and project and programme activities. A related result was noted in the annual UNOPS partner satisfaction survey for 2009, which indicates that "reporting timeliness" (mainly regarding financial reports) is the most significant area of partner dissatisfaction.

Chart 6. Project audit recommendations, by functional area

C. Internal audit reports of specific programmes

53. The Internal Audit and Investigations Group reports the commencement during 2009 of a dedicated and comprehensive audit programme focused on a partner programme executed by UNOPS, the Small Grants Programme.

54. The Global Environment Facility (GEF) Small Grants Programme was created in 1992 and is implemented by UNDP and executed by UNOPS. The Programme, which is now in Operational Phase 4 (2007-2010), supports projects that link to the GEF focal areas of land, biodiversity conservation, mitigation of climate change and the protection of international waters. UNOPS provides the following programme execution services for the Small Grants Programme: personnel recruitment, subcontracting, authorization of grant allocations and disbursements, budget administration and reporting, training and guidance to country-level staff, provision of legal advice, and internal oversight and audits.

55. During 2009, based on the request of GEF, as per the recommendation of a programme evaluation that an *"audit schedule that ensures that all country programmes can be audited at least once during every Operational Phase should be established and funds for audits should be allocated in each OP"*, the Internal Audit

and Investigations Group, in consultation with the UNOPS Small Grants Programme management team, engaged a third-party professional audit firm with a global presence, through a competitive tender process, to carry out the audits on behalf of the Internal Audit and Investigations Group. The Internal Audit and Investigations Group provided quality control on the risk assessment and the units selected for audit, the audit work programme and the audit reports. The scope of the audit covered both compliance and management (functional) issues relating to the governance process, grants management process, finance, human resources, procurement and asset management. The Internal Audit and Investigations Group sought to provide an assurance to management that the key financial and operational controls were functioning as envisaged and bring to the attention of stakeholders any management or systemic issues relating to the control environment for macro-level decision-making so as to strengthen the control structure of the Small Grants Programme.

Internal audit reports issued for the Small Grants Programme

56. From 2003 to 2008, 16 internal audit reports were issued covering the Small Grants Programme in different countries.

57. Based on risk assessment, each of the 80 Small Grants Programme country programmes was categorized as either "very high", "high", "medium" or "low" risk and 39 of these country programmes were audited in 2009. Of these, 38 reports were issued in 2009, which contained 754 audit recommendations, of which 61 were categorized as "high" risk, 278 as "medium" risk and 415 as "low" risk.

58. All but four reports provided a "satisfactory" or "partially satisfactory" rating on either "internal controls" or "financial operations" or both. Four reports provided an "unsatisfactory" rating in one or both areas.

59. In terms of functional area, 396 (52 per cent) recommendations related to programme management, 275 (36 per cent) pertained to finance and the remaining 83 (9 per cent) related to asset management, human resources and procurement.

60. During 2010, an additional 40 Small Grants Programme country programmes are scheduled to be audited.

V. Other observations relating to 2009

A. Overall assessment of internal controls

61. The Internal Audit and Investigations Group currently does not provide an overall assessment of internal controls for UNOPS. At present, its assessment of internal controls is limited to each specific location or function audited.

62. However, it is noted that during the fortieth meeting of the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions, it was agreed that a working group would be set up with a mandate to report on the feasibility of establishing an assurance mechanism within the members' respective organizations. This mechanism may include the provision, by the head of the organization, of a reliable management assertion that indicates the extent to which governance, risk management and control processes are adequate. Internal audit would then provide independent and objective assurance as to the reliability of management's assertion.

B. United Nations Board of Auditors report

63. In the report of the United Nations Board of Auditors on UNOPS financial statements for the biennium that ended 31 December 2007 (A/63/5/Add.10 (SUPP)), three matters of emphasis were noted related to asset management, the unresolved current account with UNDP, and the recognition of revenue. The Internal Audit and Investigations Group has assessed their impact on the planning and conduct of internal audits as follows:

(a) Asset management remains a constant focus for all audits conducted by the Internal Audit and Investigations Group;

(b) The continued unresolved current account balance between UNOPS and UNDP in particular as at 31 December 2009 was noted. The Internal Audit and Investigations Group considered it equally important to assess measures in place to avoid unresolved differences in the future and these were assessed in 2009, with the resultant internal audit report issued in early 2010. The report also noted the good practice followed by UNOPS in its successful reconciliation and resolution process with the United Nations Population Fund; and

(c) Changes in how revenue is to be recognised would further increase in importance during 2009 and 2010 with the implementation of the International Public Sector Accounting Standards.

C. Implementation of the International Public Sector Accounting Standards

64. UNOPS was scheduled to move from the use of the United Nations system accounting standards to the use of the International Public Sector Accounting Standards in preparing its financial statements from 1 January 2010. During 2009, a decision was taken by management to delay this date to 1 January 2012 in line with several other organizations.

65. UNOPS has established a project board and management team to oversee this process. The Internal Audit and Investigations Group participates in project board meetings on an advisory basis, with a view to providing quality assurance reports to the UNOPS Executive Director.

D. Increased audit coverage of significant programmes executed by UNOPS

66. In the 2008 annual report of the UNOPS Internal Audit Office (DP/2009/24), it was noted that the Internal Audit Office (now named the Internal Audit and Investigations Group) should endeavour to expand its audit coverage of specific and significant programmes executed by UNOPS on behalf of its partners.

67. Two programmes were identified, namely, the GEF-funded Small Grants Programme and the Mine Action Programme, which is funded by multiple partners. The details of the audit programme of the Small Grants Programme are provided earlier in this report. Audits of the Mine Action Programme began in Cyprus and Somalia, and the audit programme will be expanded in 2010.

E. Multi-donor trust funds

68. In 2008, UNOPS was appointed administrative manager of the Enhanced Integrated Framework Trust Fund, managed from the UNOPS office in Geneva. UNOPS is also the Fund Manager for the Three Diseases Fund in Myanmar. As indicated in the UNOPS strategic plan, this area of service will remain part of the UNOPS portfolio and service offering. The Internal Audit and Investigations Group follows the auditing framework developed by the United Nations Development Group Audit Subcommittee in maintaining due audit coverage of such portfolios.

VI. UNOPS Accountability Framework

69. In accordance with Organizational Directive No. 2: UNOPS Accountability Framework and Oversight Policies, the head of the Internal Audit and Investigations Group will report to the Executive Board on the resources available and required for the implementation of the present accountability framework.

70. The pillars of the UNOPS Accountability Framework and Oversight Policies that are internal to the organization include the Strategy and Audit Advisory Committee, the Internal Audit and Investigations Group, the Ethics Officer, the Office of the General Counsel, the Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the management's "balanced scorecard" programme, and the implementation of the UNOPS organizational directives.

71. The fundamental pillars of the UNOPS Accountability Framework and Oversight Policies that are external to the organization include the Executive Board, the United Nations Board of Auditors, the United Nations Joint Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

72. The Internal Audit and Investigations Group limits its reporting on this matter to those resources required for pillars internal to the organization only. It is noted that all bodies mentioned in the UNOPS Accountability Framework and Oversight Policies had been established and funded and were functioning as intended as at 31 December 2009. It is further noted that all required coordination and reporting to those bodies external to the organization did occur during 2009.

VII. Advisory services

73. Advisory services cover a wide range of issues relating to internal control concerns, proposed policies, organizational directives, business processes, proposed agreements and specific issues that management may request. During 2009, the Internal Audit and Investigations Group continued to render a number of such services, which included providing comments on policies and procedures.

74. The Internal Audit and Investigations Group continued to assist in reviewing proposed project agreements containing audit clauses to ensure that such clauses are in accordance with the Financial Regulations and Rules and recommend actions to address such audit requirements.

75. It is important to underscore that the Internal Audit and Investigations Group acts only in an advisory capacity and not as a participant in the implementation of any procedure.

VIII. Single audit principle

76. The Internal Audit and Investigations Group continues to uphold the United Nations "single audit principle" as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21) presented to the Executive Board at its annual session 2008.

IX. Disclosure of internal audit reports

77. The Internal Audit and Investigations Group notes Executive Board decision 2008/37 in which the Executive Board took note of the report on the UNOPS accountability and oversight policies (DP/2008/55) and approved the accountability framework and oversight policies set out therein. In this regard, it recognizes the confidential nature of internal audit reports and the procedures approved by the Executive Board, which allows disclosure of internal audit reports when a request is received by a Member State.

78. UNOPS did not receive a request from any Member State to view an internal audit report during 2009.

X. Operational issues

A. Resources

79. During 2009, the structure of the Internal Audit and Investigations Group was bolstered with the addition of one internal auditor and one investigator position, established at professional grades 3 and 4, respectively.

80. On 22 January 2009, the Executive Board adopted a decision relating to UNOPS as a whole in which the Board "Approves *all the proposed post reclassifications as per DP/2009/7 and the associated increase in the 2008-09 biennial administrative budget of up to $1,045 million, and* encourages *the Executive Director to prioritize the post upgrades for those positions with the greatest transformational impact for the organization*". In this regard, as at 1 January 2010, three posts had been upgraded in the Internal Audit and Investigations Group: one to Director (D1), one to Senior Internal Auditor (P5) and one to Internal Auditor (P4).

81. The Internal Audit and Investigations Group is currently staffed with one Director, one Senior Internal Auditor, four Internal Auditors, and one Investigator. This structure is supplemented by the engagement of third-party professional firms and individual consultants. As at 31 December 2009, three of the staff positions remained vacant, two of which related to posts newly created during 2009. The impact on the completion of the annual work plan as a result of these vacancies was mitigated by the engagement of individual consultants throughout the year. A recruitment process to fill the vacant posts is ongoing.

B. Online issue tracking system for the follow-up of audit recommendations

82. To assist the Internal Audit and Investigations Group and UNOPS management in following up on the implementation of audit recommendations, the Internal Audit and Investigations Group now uses a web-based, fully automated tracking system, 'Issue Tracker', for monitoring the implementation of audit recommendations.

C. Involvement with professional bodies

83. The Internal Audit and Investigations Group has continued its formal ties with the Institute of Internal Auditors, to whose standards it adheres. Furthermore, it remains an active member of the Danish chapter of the Institute of Internal Auditors and participates in several seminars, presentations and technical events.

XI. Investigations

84. The role of the Internal Audit and Investigations Group was further defined during 2009 in accordance with Organizational Directive No. 15 (Revision 1) – UNOPS Global Structure. The Internal Audit and Investigations Group now leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority or other misconduct and violations of UNOPS regulations, rules and administrative instructions. A dedicated budget has been allocated to support this investigative function, and it will be headed by an Investigator staff position, established at a professional grade 4.

85. The Internal Audit and Investigations Group issued 13 investigation reports in 2009 (compared with 3 in 2008), as requested by the General Counsel and approved by the Executive Director. In conducting its investigations, it follows the *Uniform Guidelines for Investigations (updated 2009)* adopted by the Conference of International Investigators. These guidelines have been incorporated into the draft *UNOPS Legal Framework for Addressing Non-compliance with UN Standards of Conduct*, and the revised *UNOPS Investigation Guidelines*, both due for release in the second quarter of 2010.

86. Of the 13 reports finalized by the Internal Audit and Investigations Group, 12 were submitted to the UNOPS General Counsel recommending disciplinary proceedings, or administrative action, of varying degrees. The remaining report related to a preliminary assessment and fact-finding mission and recommended that a formal investigation be undertaken. Where applicable, the reports also contain recommendations for the consideration of management to address the underlying cause of the wrong doing.

XII. Summary of follow-up of 2005, 2006, 2007, 2008 and 2009 audit recommendations

A. Implementation of audit recommendations

87. In line with the standard for the professional practice of internal auditing, which requires "a follow-up process to monitor and ensure that management actions

have been effectively implemented",[6] and in order to address Executive Board decision 2006/13, the recurring annual work plans of the Internal Audit and Investigations Group include a follow-up review of audit recommendations on a minimum six-month basis. In addition, for each UNOPS office or project audited, management will be required to provide a follow-up action or activity report addressing each audit recommendation on an ongoing basis, using the online tool, Issue Tracker. The most recent follow-up of previous audit recommendations with UNOPS management was completed in early 2010, reflecting the status of implementation as at 31 December 2009.

88. The Internal Audit and Investigations Group requests that management provide written responses to audit recommendations contained in audit reports, including action taken (or contemplated) to implement recommendations. Desk reviews are performed on its comments and supporting documents, whenever available.

B. Implementation of audit recommendations issued in 2009

89. The combined 2009 audit reports contained 1,179 audit recommendations for improving internal controls and organizational efficiency and effectiveness. Of these, 178 pertain to internal audits reports, 247 to project audits reports and 754 to Small Grants Programme audit reports. Table 6 shows the status of implementation of audit recommendations as at 31 December 2009.

90. The high percentage of audit recommendations categorized as "not implemented" (83 per cent) is due to the "expected completion date" having not yet been reached in the majority of cases, particularly those relating to the Small Grants Programme. Analysis also shows that 11 per cent of the recommendations had been implemented/closed and 6 per cent were in the process of being implemented.

Table 6. Status of implementation of audit recommendations issued in 2009

Status	Number of recommendations				Percentage			Total
	IAIG Audits	Project Audits	SGP Audits	Total	IAIG Audits	Project Audits	SGP Audits	
Implemented/Closed	29	96	1	126	16	39	<1	11
In process of implementation	69	7	1	77	39	3	<1	6
Not implemented	80	144	752	976	45	58	>99	83
Total	**178**	**247**	**754**	**1,179**	**100**	**100**	**100**	**100**

Note: IAIG = Internal Audit and Investigations Group; SGP = Small Grants Programme.

C. Implementation of audit recommendations from previous years

91. The follow-up review showed that as at 31 December 2009, the overall implementation rate for 2008 audit recommendations was 60 per cent (table 7); for 2007 audit recommendations, it was 94 per cent (table 8); for 2006 audit recommendations, the rate was 95 per cent (table 9); and for 2005 audit recommendations, it was 98 per cent (table 10).

[6] The Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

92. The Internal Audit and Investigations Group notes the positive result of 90 per cent recorded for clearing audit recommendations relating to project audits from 2008, and it expects to record significant improvement in the overall rate of 60 per cent for 2008 audit recommendations during 2010.

Table 7. Status of implementation of audit recommendations from 2008

Status	Number of recommendations				Percentage			
	IAIG Audits	Project Audits	SGP Audits	Total	IAIG Audits	Project Audits	SGP Audits	Total
Implemented/Closed	161	153	38	352	45	90	64	60
In process of implementation	116	1	5	122	32	1	9	21
Not implemented	82	15	16	113	23	9	27	19
Total	**359**	**169**	**59**	**587**	**100**	**100**	**100**	**100**

Table 8. Status of implementation of audit recommendations from 2007

Status	Number of recommendations	Percentage
Implemented/Closed	136	94
In process of implementation	7	5
Not implemented	2	1
Total	**145**	**100**

Table 9. Status of implementation of audit recommendations from 2006

Status	Number of recommendations	Percentage
Implemented	71	95
In process of implementation	4	5
Not implemented	0	0
Total	**75**	**100**

Table 10. Status of implementation of audit recommendations from 2005

Status	Number of recommendations	Percentage
Implemented	153	98
In process of implementation	3	2
Not implemented	0	0
Total	**156**	**100**

D. High-priority and/or most recurrent audit issues and those unresolved for 18 months or more after the most recent follow-up of audit recommendations with UNOPS management

93. Annex 1 lists the recurrent and/or high-priority audit recommendations issued in 2009. Annex 2 lists unresolved audit recommendations over 18 months old as at 31 December 2009, including comments on their current status, while the Strategy and Audit Advisory Committee annual report 2009 is contained in annex 3.